

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC3644 TAXATION 2

(All Sections / Groups)

3 JULY 2023

9.00 a.m. – 12.00 p.m.

(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 11 pages including the cover page with **FIVE (5)** Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Since the year 2016, Haywood Households Sdn. Bhd. (HHSB) has been a wholesale distributor supplying a wide range of household products to retailers throughout Malaysia. The company has maintained a paid-up share capital of RM2.51 million since its commencement. Its statement of comprehensive income for the financial year ended 30th June 2022 is as follows.

Haywood Households Sdn. Bhd. (HHSB)
Statement of Comprehensive Income
For the year ended 30th June 2022

	Note	RM	RM
Sales			1,885,000.
Less: Sales return	1		(9,200)
Net sales			1,875,800
Less: Cost of sales	2		(639,410)
Gross profit			1,236,390
Less: Operating expenses			
• Remuneration and staff benefits	3	520,000	
• Selling and distribution	4	264,060	
• Professional fees and bank charges	5	50,300	
• Depreciation and amortisation		77,690	
• Bad and doubtful debts	6	101,800	
• Transportation and logistics	7	53,600	
• Contributions and donations	8	48,450	(1,115,900)
			120,490
Add: Other income			
• Dividend and interest	9		15,610
Profit before tax			136,100

Notes to the accounts:

- The actual value of sales returns made by customers due to defective products was RM11,200. The amount reflected in the account was wrongly recorded by HHSB's accounts executive.
- Cost of sales included a loss of RM6,320, which was yet to be realised, on stock purchase from Vietnam.
- Remuneration and staff benefits comprised of:
 - The total salaries and bonus for the year was RM412,000. Included in this amount, gross salary of RM1,500 per month had been paid to a full-time storekeeper for the year. The storekeeper was a sixty-two years-old Malaysian citizen.

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- ii. Contribution to the Employees' Provident Fund during the year was RM80,500.
 - iii. RM27,500 was spent on providing and maintaining a childcare centre for its employees. The centre has been registered with the Department of Social Welfare.
4. Selling and distribution are made up of the following expenses:
- i. Entertainment allowance of RM213,580 for sales personnel.
 - ii. Expenditure of RM50,480 incurred on local and overseas trips awarded to sales dealers who achieved their sales target in the year.
5. Professional fees and bank charges included:
- i. The company secretary charged RM9,780 for her services during the year. The invoice included RM2,650 as out-of-pocket expenses.
 - ii. RM7,310 was incurred as statutory audit fee for the year.
6. Bad and doubtful debts comprised of the following:

	RM
Bad debts written-off during the year	21,750
Net increase in the general provision of doubtful debts	55,000
Net increase in the specific provision of doubtful debts	25,050
	<u>101,800</u>

7. The expenses which made up transportation and logistics are as follows:
- i. Maintenance and repairs of the company's delivery fleet cost RM29,100.
 - ii. Leave passage of RM24,500 to Brisbane, Australia for the Chairman of the company and his family.
8. Contributions and donations made by HHSB for the year are as follows:
- i. Cash donations of RM38,450 made to several approved orphanages in Melaka.
 - ii. Cash donation of RM10,000 made to the Melaka State Government to assist in the flood relief efforts.
9. HHSB has received the following dividends and interests throughout the financial year:
- i. Interim dividend of RM5,110 from Titus (Singapore) Ltd. credited into HHSB's Maybank account in Malaysia.
 - ii. RM10,500 as interest from HHSB's fixed deposit account in Standard Chartered Bank (Malaysia).

Additional information:

- For the Year of Assessment (YA) 2022, HHSB was entitled to claim capital allowance of RM53,000. The records also showed that HHSB had a business loss of RM8,390 unutilised from the prior YA.

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Required:

Calculate the income tax payable of Haywood Households Sdn. Bhd. (HHSB) for YA2022.

Note: Indicate 'NIL' in the appropriate column for item that does not require adjustment. Show all relevant workings. You do not have to provide justifications for the tax treatments. Round up all your answers into the nearest Ringgit Malaysia (RM), except for the income tax payable figures.

(20 marks)

QUESTION 2**Part A**

MBL Plantations Sdn. Bhd., which commenced its operations on 1st January 2021, owns agricultural land in Rompin, Pahang. Currently, the land is planted with sugarcane which produces nearly 30,000 metric tons annually.

The company had incurred the following agriculture expenditures during its financial year ended 31st December 2021.

Expenditure	RM
Land acquisition	2,500,000
Clearing of land for planting of sugarcane	43,000
Cost of planting the sugarcane seedlings and billets	128,000
Construction of access road into the farm	110,000
Construction of workers' accommodation on the farm	250,000
Construction of storage and farm office buildings on the farm	79,000

In June 2022, the plantation was attacked by wild elephants causing considerable damages to the growing sugarcane. The company had to dispose of all the damaged sugarcane and planted again new seeds and billets. The land clean-up and disposal cost RM11,000 while the planting amounted to RM14,500.

Required:

- List the requirements necessary for MBL Plantations Sdn. Bhd. to be eligible for claiming agriculture allowance.
- Calculate the agriculture allowance claimable by MBL Plantations Sdn. Bhd. for all the relevant Years of Assessment.

(2 marks)

(8 marks)

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Part B

Adamantine Sdn. Bhd. (Adamantine), a company resident and incorporated in Malaysia, operates amusement parks and resorts across several States in the country.

Adamantine had engaged ADS Builders Co. (ADS) for three years to design and build a water theme park in Kuching, Sarawak for RM67 million. ADS, a firm registered and domiciled for tax purposes in the United States, has set up a management office in Kuching since the year 2020 for the purpose of supervising this project. The project was completed in May 2022 and the theme park was officially opened to public on 1st August 2022.

During its financial year ended 31st December 2022, the following transactions have been recorded by Adamantine:

- RM9 million was paid to ADS during the year. RM2.7 million was incurred to acquire the materials required for the construction while the balance was for the service portion.
- Adamantine had hired Bumi Kenyalang Sdn. Bhd., a local nursery business, to provide landscaping services at the water theme park in Kuching. It had paid RM368,000 for the works done in the year.
- Adamantine had invited a popular pop group from South Korea to perform in its launching celebration. The pop group charged a gross amount of RM1.01 million for the three-hour concert.

Required:

- i. Determine the chargeability of withholding tax on each of the above transaction. Justify your answers by quoting the relevant provisions of the Income Tax Act 1967 (as amended). Calculate, where applicable, the amount of withholding tax.
(8 marks)
- ii. Calculate the amount of penalty chargeable on Adamantine Sdn. Bhd. should it fail to comply with the due date requirement of withholding tax remittance.
(2 marks)

(Total: 20 marks)

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QUESTION 3

Kashkari & Sons Sdn. Bhd. is an agriculture company located in Johor with the financial year-end of 31st December. It has been a Malaysian tax resident from its commencement and has since maintained a paid-up ordinary share capital of RM1.25 million. Besides its agriculture activities, Kashkari & Sons Sdn. Bhd. runs a chain of supermarkets in Johor, Melaka, and Negeri Sembilan.

Kashkari & Sons Sdn. Bhd. had applied for investment tax allowance incentive under the Promotion of Investment Act 1986 for its agriculture business which qualifies as a promoted activity. The approval was received and took effect from 1st March 2019.

The following information has been extracted from records of Kashkari & Sons Sdn. Bhd.

Financial year ended 31 st December	2021 (RM)	2022 (RM)
Agriculture business		
Adjusted income	341,000	390,000
Capital allowance	25,000	25,000
Approved cash donations	6,600	6,900
Supermarket trading business		
Gross business income	400,500	454,600
Business expenses (55% of the expenses were allowable)	316,000	328,000
Capital allowance	12,300	11,200
Balancing charge	-	3,200
Other income		
Interest from Maybank Bhd.	4,800	5,700

The table below presents the qualifying capital expenditure incurred by Kashkari & Sons Sdn. Bhd.

Financial year ended 31 st December	Agriculture business	Supermarket trading business
2021	RM411,000	RM245,000
2022	RM382,000	RM366,000

Required:

Determine the income tax payable and amount, if any, to be credited into exempt income account of Kashkari & Sons Sdn. Bhd. for the relevant Years of Assessments (YAs).

(20 marks)

Continued...

QUESTION 4

Mr. Lim, a Malaysian citizen, passed away on 14th December 2021. Miss Sue had been appointed to serve as the executor to his estate, which included the following real properties.

Real property	Double-storey terrace house in Ipoh	Land in Seremban 2	Rubber plantation in Jasin	Bungalow house in Georgetown
Date of acquisition	24 th March 2013	1 st July 2015	17 th September 2019	5 th December 2020
Market value at acquisition	RM360,000	RM1,970,000	RM850,400	RM2,000,000
Market value on 14 th December 2021	RM440,000	RM2,080,000	RM877,500	RM2,153,000

According to the late Mr. Lim's will, the above properties were to be distributed among his Malaysian family members in the following manner.

- The double-storey terrace house was to be given to his sister, Madam Lim. The transfer of this property was done on 21st May 2022, with the market value of RM540,000.
- The bungalow house was to be given to his wife, Madam Ng. The transfer was completed on 14th April 2022 when the market value was RM3.25 million.
- The land was to be given to his eldest son, Mr. Jeremy. Its transfer was executed on 15th June 2022 with the land's market value at RM2.34 million.
- The rubber plantation was to be disposed of and its proceeds equally apportioned among his daughters, Madam Ai Nee and Miss Ai Qi. The plantation was sold at market value of RM1.1 million on 22nd August 2022. The proceeds were distributed to the daughters on 11th October 2022.

On 1st October 2022, Mr. Jeremy transferred the land in Seremban 2 to Lim Holdings Sdn. Bhd. (LHSB) for RM2.75 million. The consideration was equal to the market value of the land at the date of transfer. In return, he received 2.75 million shares of RM1.00 each in LHSB. LHSB is a trading company jointly owned by him and his wife, Madam May.

Prior to the transfer, the record showed that the paid-up capital of LHSB was wholly owned by the following two individuals.

Name of shareholder	No. of paid-up ordinary shares of RM1 per unit
Mr. Jeremy	250,000
Madam May	550,000

On 1st December 2022, Mr. Jeremy had sold all his shares in LHSB for RM3 million.

Required:

- a. Calculate, if any, the real property gains tax payable by Miss Sue for each of the transfers she had executed under the Real Property Gains Tax Act 1976 (as amended).

(10 marks)

Continued...

- b. Determine the real property gains tax liability, if any, by Mr. Jeremy for the Year of Assessment (YA) 2022 under the Real Property Gains Tax Act 1976 (as amended).

(10 marks)

(Total: 20 marks)

QUESTION 5

Haji Hamzah owns a handicraft trading business in Kulim, Kedah. In January 2023, his financial affairs for the Year of Assessment (YA) 2021 had been subjected to tax audit by the Inland Revenue Board of Malaysia (IRBM). Following the result of the audit exercise, his case has been recommended for tax investigation.

On 1st June 2023, the IRBM investigation team had visited his business premise and residence to collect information, documents, and business records. The information received by the investigation team are presented in the following table.

Financial year ended	31 st December 2020		31 st December 2021	
	RM	RM	RM	RM
Capital		85,000		101,000
Balance of profit and loss account b/f	99,000		151,000	
Profit for the year	17,000		53,000	
Less: Drawings	(50,000)	66,000	(39,000)	165,000
		151,000		266,000
Represented by:				
Non-current assets		119,000		204,000
Current assets	72,000		187,000	
Less: Current liabilities	(40,000)	32,000	(125,000)	62,000
Net assets		151,000		266,000

The investigation team's findings based on the interviews and information collected also revealed the following facts regarding Haji Hamzah.

- He had purchased a new Toyota Hilux for RM97,500 in cash during the year 2021 for his personal use.
- His house, which was built by him, was completed in the year 2012. The project cost him RM303,000 and was financed by a bank loan. He had made the final instalment payment in December 2018.
- Since the year 2018, he had owned 15,000 units of shares of Al-'Aqar Healthcare REIT. The shares were worth RM1.25 per unit. In September 2019, he had acquired 1,500 units of shares of Ajinomoto (Malaysia) Bhd. for RM16.60 per unit. In the year 2021, he had sold half of his investment in Al-'Aqar Healthcare REIT for RM1.55 per unit. He used the proceeds to purchase the shares of Adventa Bhd. instead.
- He had inherited a piece of land worth RM122,000 from his late mother in the year 2019. The market value of the land in the year 2021 had risen to RM170,000.

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- v. His statements of accounts from financial institutions demonstrated the following balances as at the end of the relevant financial years.

Year	Savings account at CIBM Bank Bhd.	Amanah Saham Bumiputera account
2020	RM123,000	RM200,000
2021	RM80,000	RM200,000

- vi. It was agreed that during the year 2021, he had incurred the following expenditures for himself and his immediate family.

Household expenses	RM111,250
Medical and life insurance premiums	16,700
Umrah expenses	29,000
Entertainment and travelling expenses	12,000
Income tax expense	<u>3,750</u>
	<u>172,700</u>

Required:

Ascertain the omitted income of Haji Hamzah for the Year of Assessment (YA) 2021 with reference to the Income Tax Act 1976 (as amended).

(20 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

i. Tax rates of a resident company with paid up capital not more than RM2.5 million

Chargeable income	Rate
On first RM600,000	17%
Excess RM600,000	24%

ii. Tax rate of a resident company with paid up capital more than RM2.5 million and a non-resident company

Chargeable income	Rate
All chargeable income	24%

iii. Tax rate for a non-resident (other than non-resident company)

Type of income	Rate
Interest	15%
Royalty	10%
Contract payment	10% + 3%
Special classes of income	10%
Public entertainers' remuneration	15%
Section 4(f) income	10%

iv. Rates of capital allowance

Type of assets	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery (general)	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

v. Rates of agriculture and forest allowances

Capital expenditure – Agriculture	Rate
Clearing and preparation of land for the purpose of agriculture	50%
Planting of crops on land cleared for planting	50%
Construction on a farm of roads or bridges	50%
Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20%
Construction of any other building	10%

Continued...

Capital expenditure - Forest		Rate
Construction of roads or buildings used for the purposes of extracting timber from a forest.		10%
Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.		20%

vi. Rates of Real Property Gains Tax

	Part I		Part II		Part III
	i. Malaysian citizen or permanent resident individual ii. Executor of the estate of deceased person who was a citizen or permanent resident iii. Limited liability partnership and partnership		i. Company incorporated in Malaysia ii. Trustee of a trust or body of persons registered under the law in Malaysia		i. Individual who is not a Malaysian citizen or permanent resident ii. Executor of the estate of deceased person who was not a Malaysian citizen or permanent resident iii. Company not incorporated in Malaysia
	2019 - 2021	2022	2019 - 2021	2022	W.e.f. 2019
Within 2 years after the date of acquisition	30%	30%	30%	30%	30%
In 3 rd year after the date of acquisition	30%	30%	30%	30%	30%
In 4 th year after the date of acquisition	20%	20%	20%	20%	30%
In 5 th year after the date of acquisition	15%	15%	15%	15%	30%
In 6 th year after the date of acquisition and thereafter	5%	0%	5%	10%	10%

End of Paper.